

# STATE OF COLORADO ANNUAL TOTAL COMPENSATION SURVEY MEET AND CONFER

*Presented by*

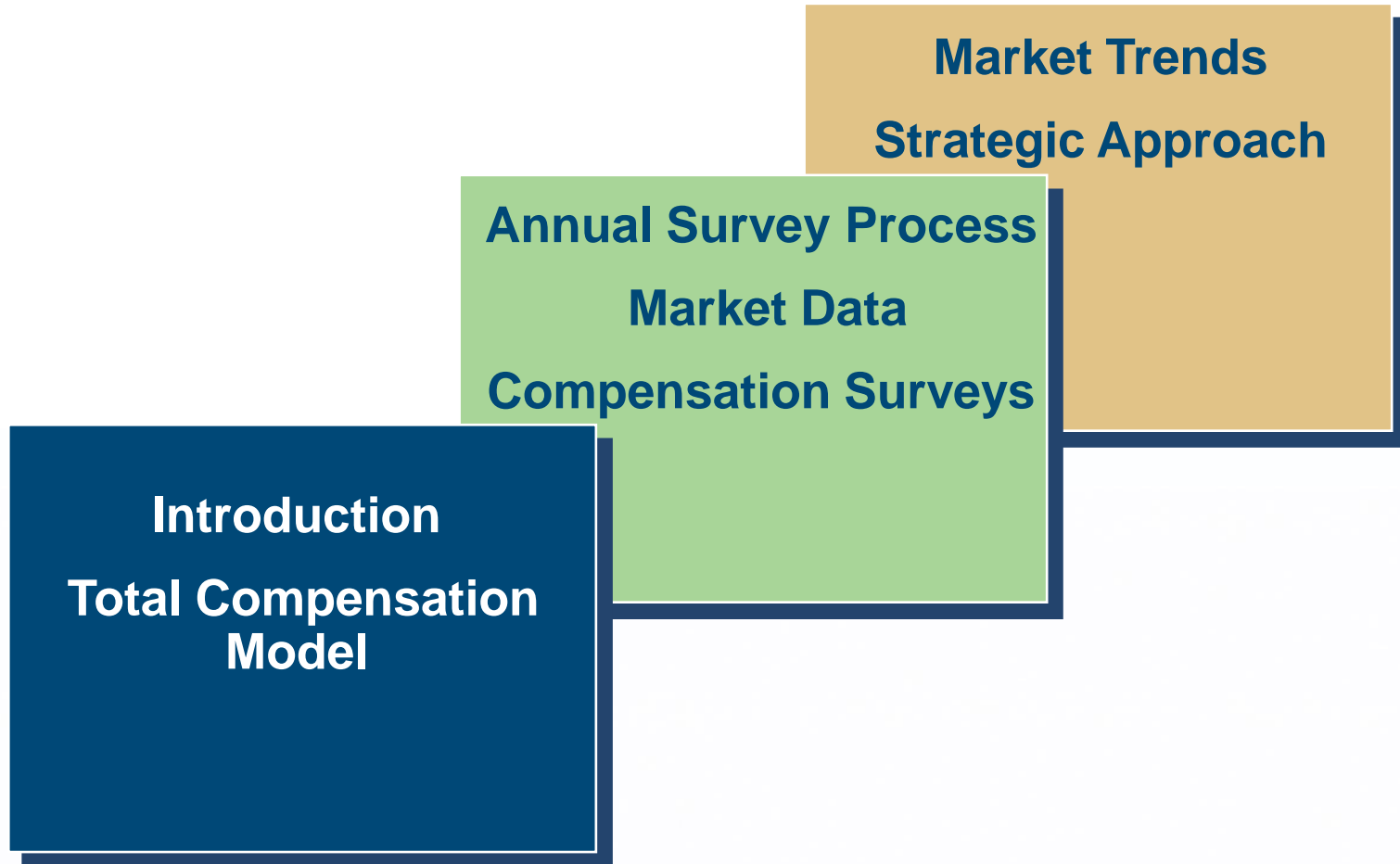
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Milliman, Inc.

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# Topics



# Introduction

## Expectations & Objectives

- To set compensation in context
- To enhance your understanding and application of compensation data and information
- To answer your questions and equip you to effectively understand the survey process
- To seek your feedback on the survey process

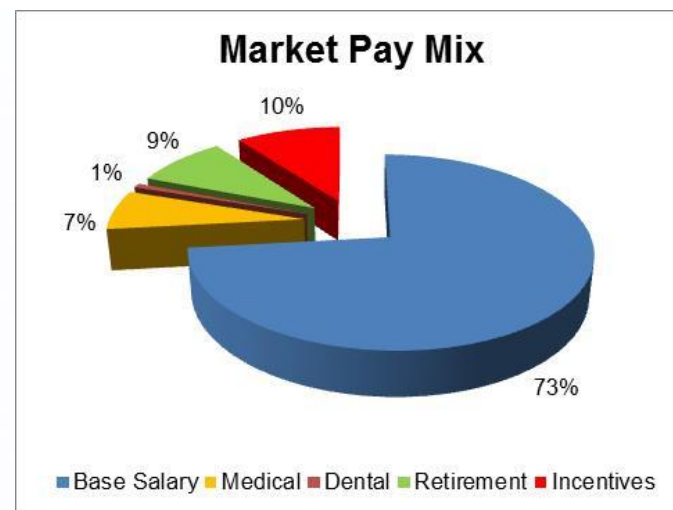


# Introduction (continued)

Milliman consultants provide a full range of consulting services to assist in the most effective management of human capital

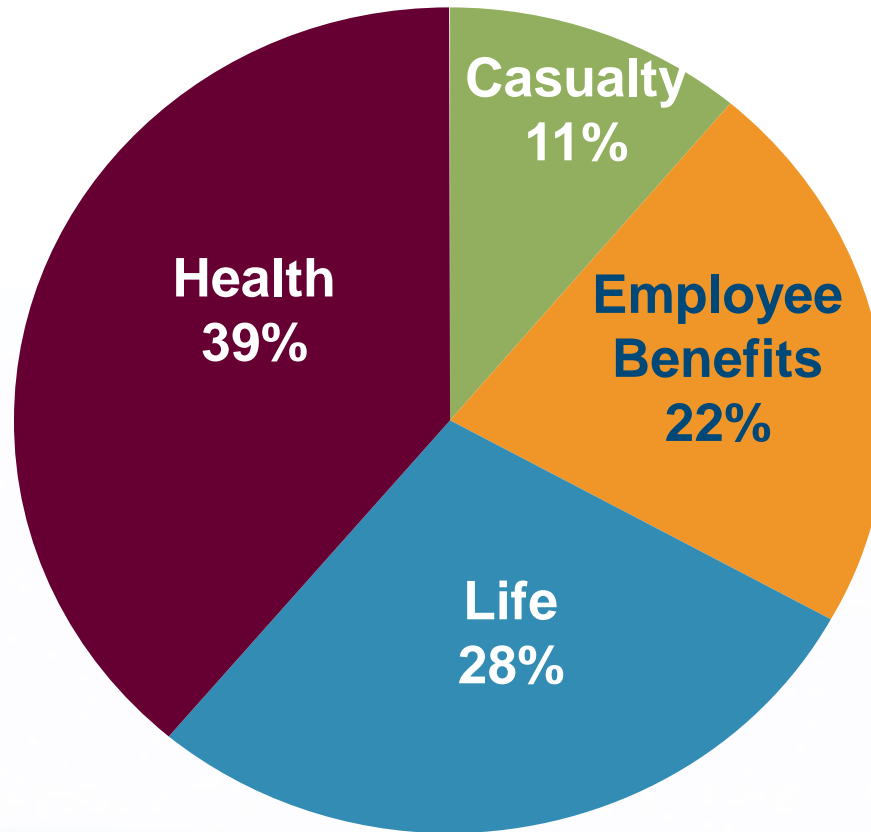
- Competitive market analysis
  - » Base salary, total compensation
- Salary management
- Incentive compensation design
- Organization structure analysis
- Performance management
- Executive compensation
- Board of director compensation

		Base Salary	Med/Vision	Dental	LTD	Life Insurance	Pension	Retiree Medical	Total Comp	Mkt Ratio
Office Clerk	Client	\$25,179	\$2,339	\$0	\$428	\$445	\$1,951	\$0	\$30,342	81.7%
	Mkt Avg	\$26,895	\$4,116	\$250	\$281	\$474	\$2,555	\$2,585	\$37,156	
Receptionist	Client	\$26,354	\$2,339	\$0	\$306	\$318	\$2,042	\$0	\$31,359	85.7%
	Mkt Avg	\$26,587	\$4,116	\$250	\$202	\$340	\$2,526	\$2,585	\$36,606	
Accountant	Client	\$42,738	\$2,339	\$0	\$262	\$273	\$3,312	\$0	\$48,924	87.3%
	Mkt Avg	\$44,230	\$4,116	\$250	\$195	\$454	\$4,202	\$2,585	\$56,032	
Payroll Clerk	Client	\$32,094	\$2,339	\$0	\$188	\$195	\$2,487	\$0	\$37,303	94.6%
	Mkt Avg	\$29,266	\$4,116	\$250	\$164	\$277	\$2,780	\$2,585	\$39,438	
Data Entry Clerk	Client	\$23,999	\$2,339	\$0	\$150	\$156	\$1,860	\$0	\$28,504	80.9%
	Mkt Avg	\$25,461	\$4,116	\$250	\$145	\$245	\$2,419	\$2,585	\$35,221	

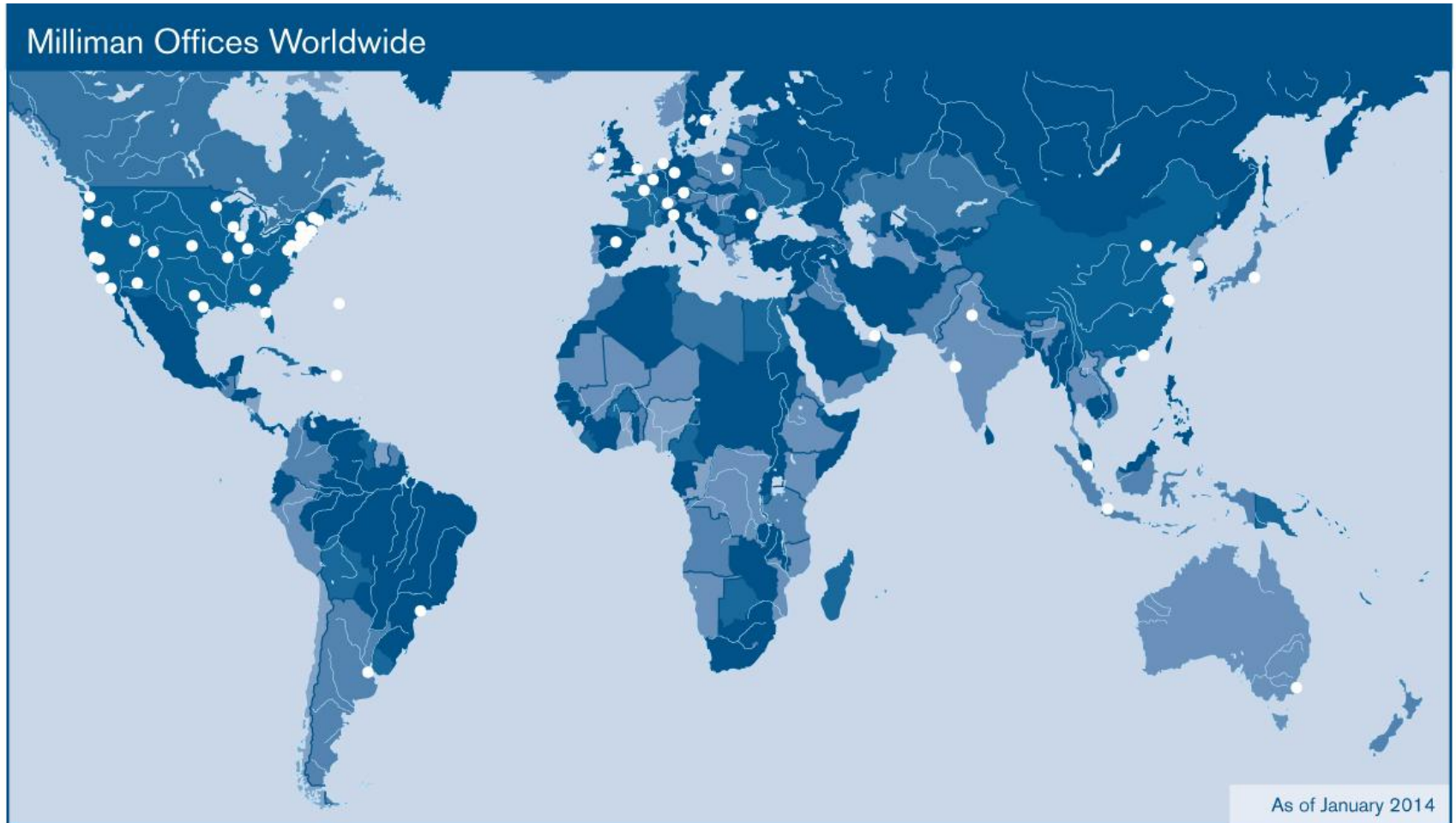


# Introduction (continued)

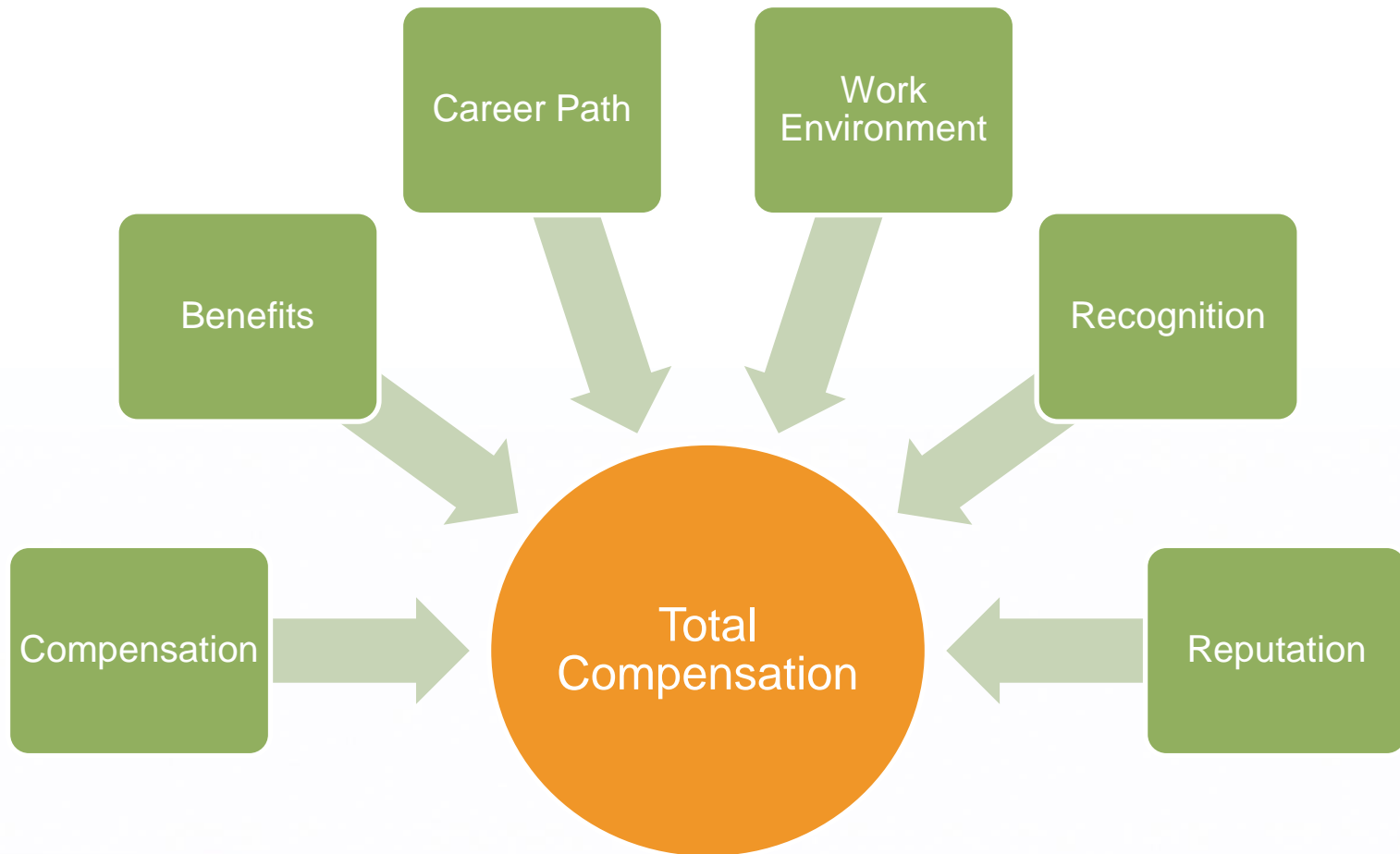
3,000 employees working  
in four disciplines



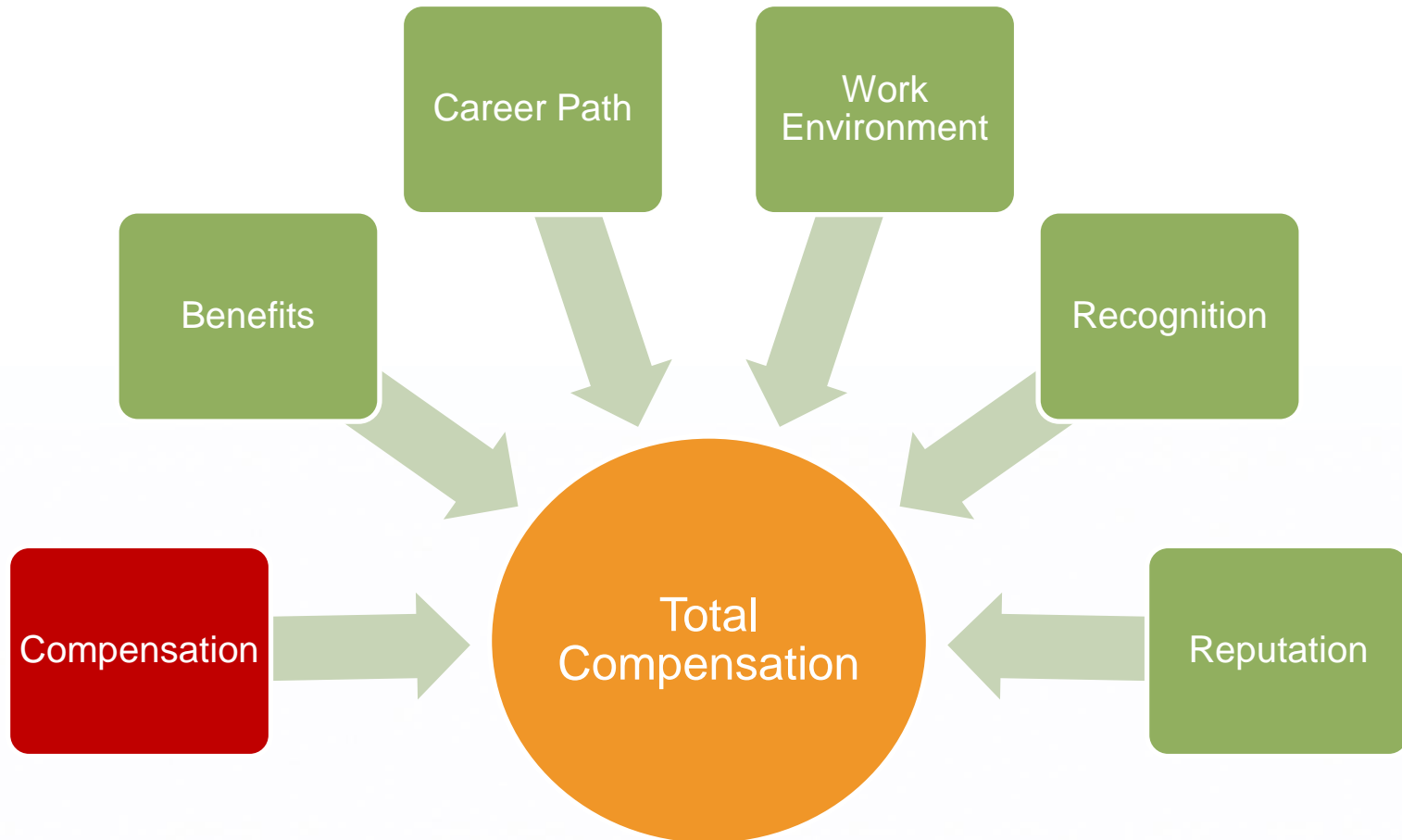
# Introduction (continued)



# Total Compensation Model



# Total Compensation Model (continued)





# Total Compensation Model (continued)

Base salary: typically thought of as compensation for possessing the knowledge and skills required to adequately perform the duties and responsibilities of a job

- Competitiveness
  - » Definition of market
  - » Position
- Fairness
- Ability to pay

# Total Compensation Model (continued)

Benefits are typically comprised of:

- Medical
- Dental
- Basic life insurance
- Leave benefits
- Retirement

Benefits programs are designed to provide an employee with security in case of unforeseen events and for retirement.

# Annual Survey Process

## General Compensation Policy Statement

- Policy is to provide “prevailing” total compensation to employees
  - » Recruitment, motivation and retention of qualified and competent workforce
- Total compensation includes, but is not limited to:
  - » Salary, group benefit plans, retirement benefits, performance awards, incentives, premium pay practices, and leave
- “Prevailing” reflects desire to maintain competitiveness with the State’s labor market (middle of market)

# Annual Survey Process (continued)

## Survey Benchmarks

- Identify core group of jobs with the State's personnel system for data comparisons with other employers in the market
  - » Approximately 500 State benchmarks
- Benchmarks are anchor points because they are jobs readily identifiable and commonly found in the market
  - » Compare compensation in relationship to market
  - » Validate the State's internal class structure
  - » Provide consistency in pay comparisons conducted year to year

# Annual Survey Process (continued)

## Survey Benchmarks (continued)

- Characteristics of good survey benchmarks:
  - » Represent a cross-section of positions and types and levels of work
  - » Well established and generally multiple incumbents representing a significant portion of the workforce
  - » Commonly and easily identified by the organization and the labor market
  - » Readily available in professional compensation surveys



# Annual Survey Process (continued)

## Survey Selection

- Pursuant to statute DPA utilizes professional compensation and benefits surveys conducted by third-party organizations in the human resources, compensation and benefits industry
- Surveys selected must meet the following criteria:
  - » Adequate benchmark job descriptions to ensure appropriate matching
  - » Appropriate data necessary for analyses (i.e., salary, benefits, trends, etc.)
  - » Statistically valid data collection and analysis methods
  - » Not “self-reported” by individual employees
  - » Identifies the effective date for pay rates or benefit contribution levels
  - » Appropriate labor markets for State’s personnel
  - » Readily available to examine, verify and/or purchase
  - » Conducted by a third-party whom regular publication is major part of business

# Annual Survey Process (continued)

## Survey Samples

- CompData Compensation Survey
- Economic Research Institute
- Mercer Compensation Survey
- Milliman
- Towers Watson

# Annual Survey Process (continued)

## Survey Benchmarks (continued)

- Non-benchmark jobs linked to survey benchmarks through internal job evaluation system
  - » Group jobs based on nature and level of work
  - » Jobs placed in pay grades and based on the internal job evaluation system and pay range values
- Integration of the two processes
  - » Ensures appropriate grade placement
  - » Maintains internal relationships within the class structure
  - » Maintains external market competitiveness

# Annual Survey Process (continued)

## Labor Market

- The State's primary labor market as mandated by statute includes both public and private sector employers within Colorado competing for the recruitment and retention of employees
  - » Also includes employers from outside Colorado where insufficient data exists

# Annual Survey Process (continued)

## Benchmark Comparisons

- Data collection and analysis
- Benchmark comparisons
  - » Trooper classes conducted separately under statute
- Wage and income differentials
- Rate projections (aging salary data)
- Salary budget planning
- Individual class adjustments



# Market Data

## Challenges

- Proliferation of online data
- Employer reported vs. employee reported
- Everybody is an “expert”



# Market Data (continued)

## External Competitiveness

- Market assessment
  - » Base, merit pay, short-term incentives
  - » Benefits
- Benchmarking
  - » Market “price” large percentage of organization’s jobs
  - » Multiple sources
  - » Supervisor education
- Policy decisions
  - » Salary structure
  - » Salary increase guidelines

# Market Data (continued)

## External Competitiveness

ABC Base Pay Comparisons



# Compensation Surveys

## Why?

- Establish a competitive pay practice
- Diagnose compensation problems
- Guide allocation of limited resources
- Provide advice to management
- Establish credibility

# Compensation Surveys (continued)

What is a quality survey?

- Administered by an independent third party
- Adequate sample size
- Breadth of sample size
- Clear data compilation practices
- Aggregate NOT individual data reported
- List of participants/sources
- Report of statistical sources
- “Current”



# Compensation Surveys (continued)

What might “muddy” survey data?

- Matching process of the participant
- Survey job descriptions that are too broad
- Bogus numbers
- Human error (e.g. \$23,000 instead of \$32,000)
- Absence of quartile information
- Absence of total cash information (base + incentives)

# Compensation Surveys (continued)

- Select the appropriate market
  - » Industry factors
  - » Geography and location of operations
    - National market – executive and difficult to recruit positions
    - Regional market – management and professional positions
    - Local market – hourly positions
- Match job to survey jobs
  - » “Capsule” descriptions
  - » Broad job responsibilities – at least 80%
  - » Use multiple matches when possible

# Compensation Surveys (continued)

## Factors affecting labor markets

### Geography

- National
- Regional
- Local

### Industry

- Pay may be significantly influenced by industry practice (e.g. public sector, retail, manufacturing)

### Function

- Pay may be significantly influenced by function (e.g. information systems)

### Size

- Organizational size may influence levels of pay for particular positions
- Complexity created by organization size

# Compensation Surveys (continued)

## Sample Survey Description

**Accountant-Intermediate:** Under general supervision, responsible for moderately complex accounting activities relating to the maintenance of a complete and accurate general ledger and the resultant managerial reports and financial statements. Typically requires a Bachelor's degree in accounting and two to four years of experience. May be CPA exam eligible. Frequently reports to General Accounting Supervisor.

(Mercer Benchmark Survey Report)

# Compensation Surveys (continued)

## Data Sample

ABC Company

Market Report

Data effective as of: July 1, 2014

Survey Name	Survey Job Title	Scope	Base 25th	Base 50th	Base Avg	Base 75th	TCC* 50th	TCC* 75th
<b>Accountant</b>								
Towers Watson Professional	Accountant Lv 2	Seattle	\$64,844	\$67,790	\$70,449	\$84,847	\$67,880	\$86,892
Milliman Puget Sound Regional	Accountant	All participants	\$60,338	\$69,021	\$70,339	\$76,604	\$69,500	\$78,081
Economic Research Institute	Accountant - Intern	3 years experience	\$57,291	\$65,528	\$64,392	\$71,675	\$66,528	\$75,409
<b>Average:</b>			<b>\$60,824</b>	<b>\$67,446</b>	<b>\$68,393</b>	<b>\$77,709</b>	<b>\$67,969</b>	<b>\$80,127</b>

TCC = Total Cash Compensation



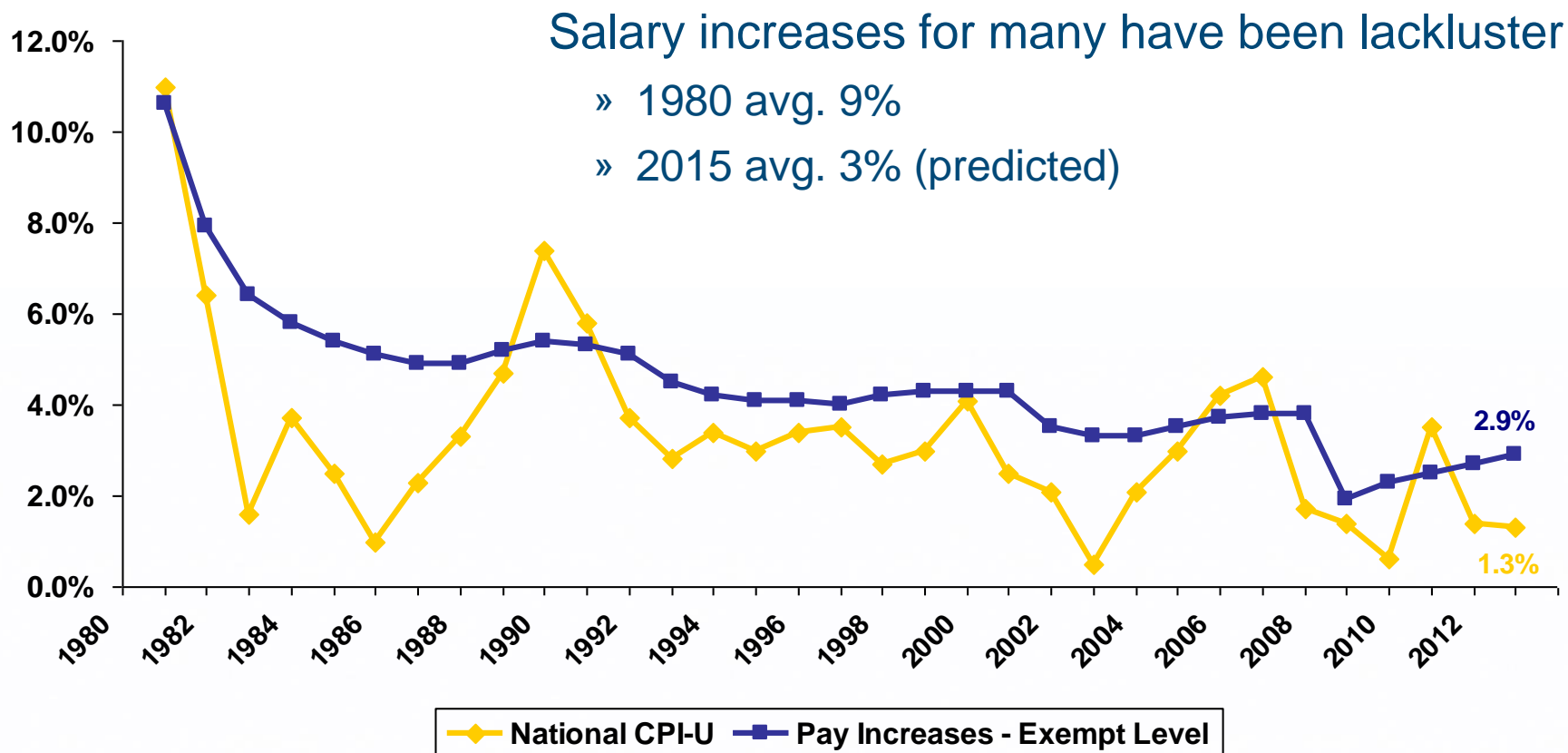
# Market Trends

## Attraction and Retention – The Future

- The landscape is changing
  - » Healthcare is now available outside the employment relationship; no longer required to work to get healthcare
  - » Employers are discontinuing their retiree healthcare plans
- Salary increases may be a smaller attraction and retention driver
- Retirement plans are changing from traditional pension to defined contribution (e.g. 401k)
- Corporate emphasis on growth and expense management
- Dynamics in the workforce
  - » Employee demographics (e.g. Millennials, Gen X, Baby Boomers)

# Market Trends (continued)

## Salary Increases



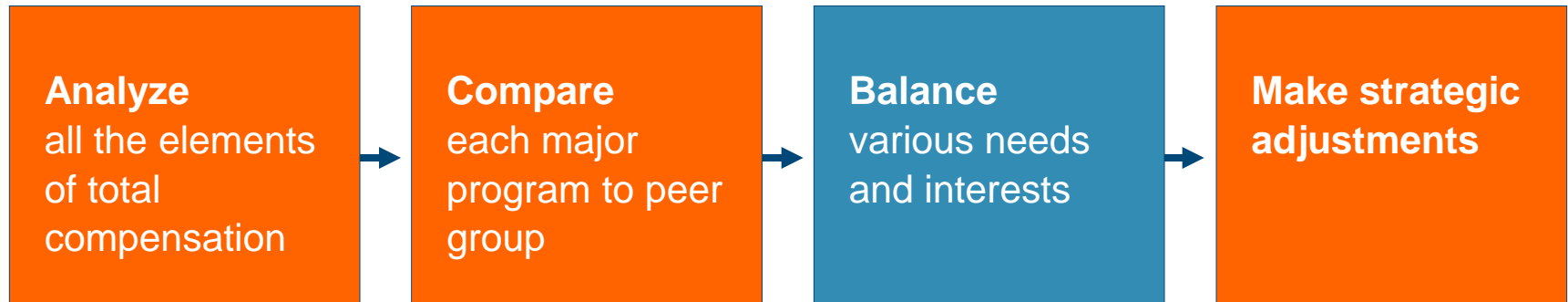
# Market Trends (continued)

## Trends in Compensation

- More than one-third (37%) either have reevaluated or are considering reevaluating their employee value proposition to place more emphasis on variable pay
- 90% of organizations use at least one variable pay plan
- Variable pay budgets are increasing
  - » 2011 – 9% of payroll budget
  - » 2013 – 12% of payroll budget
- Why?
  - » Manage fixed costs
  - » Drive performance

# Strategic Approach

## Best Practice



Balance employee  
satisfaction,  
recruiting and  
retention needs,  
financial risk and  
payroll/benefits  
budgets

# Strategic Approach (continued)

## Total Compensation Toolbox

- Cash (salary and wage)
- Medical coverage
- Dental and vision plans
- Life insurance
- Long-term disability insurance
- Short-term disability insurance/sick leave
- Time off
- Retirement (DC or DB)
- Retiree medical
- Various perquisites (such as parking, cell phone, computer, etc.)
- Work environment
- Recognition

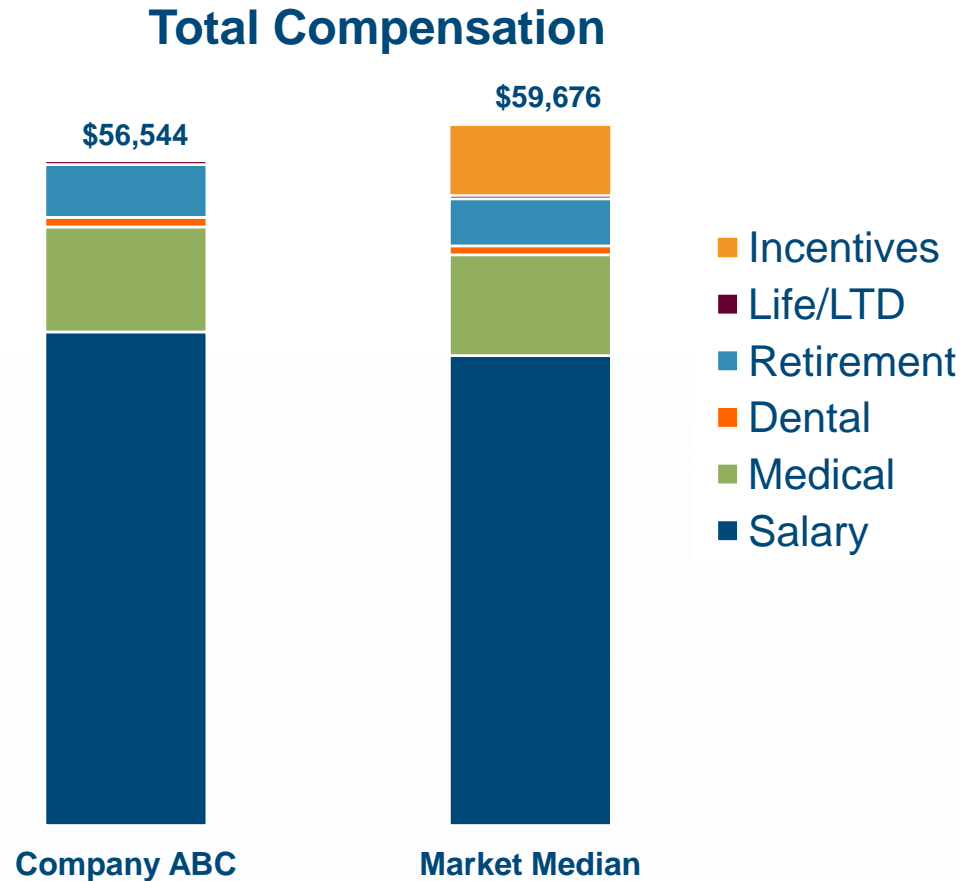
# Strategic Approach (continued)

## Identify Pay Strategy and Align With Organization Goals

- Low cost producer of certain products or services?
- The best in customer satisfaction?
- Maintain the status quo?
- Desired competitive position
- Role of each reward element
- Role of performance
- Commitment to regular assessment of the market to confirm effectiveness of strategy and competitiveness of compensation

# Strategic Approach (continued)

Sample



# Strategic Approach (continued)

## Bridge the Gap





**Thank You  
and  
Questions**